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C O N F I D E N T I A L SECTION 01 OF 03 TEGUCIGALPA 000027

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SUBJECT: ZELAYA CABINET SHUFFLE: NEW MINISTERS ARE EITHER
LOYAL OR COMPLIANT

REF: 07 TEGUCIGALPA 1785

Classified By: Charge d'affaires a. i., James Williard

¶1. (C) Summary. On January 6, President Manuel "Mel" Zelaya announced the cabinet changes he had been considering since the raids on Hondutel and its Director, Marcello Chimirri, on November 9, 2007. The changes seem to be geared towards installing those who are either more compliant or more loyal and removing more independent ministers. Finance Minister Rebecca Santos, a respected technocrat who survived the reshuffle, appears to be an exception. Other respected ministers who will remain include Education Minister Breve and Minister of Governance Orellana. The most important changes are the removal of Minister of Security Alvaro Romero, who will go as Ambassador to Costa Rica, and the removal of the head of the Central Bank, Gabriela Nunez. Zelaya is increasingly isolating himself and is finding it harder to identify people who are willing to serve him unquestioningly. End Summary.

¶2. (C) On January 6, President Zelaya called a press conference to announce the cabinet shuffle that he had been threatening since November 9, 2007. It is customary to review the work of all cabinet ministers in January of each year and make changes based on performance; however in this case, Zelaya called for the resignations of all his ministers while he was away in Chile, following the police raids on Hondutel and the home of Hondutel Director Marcello Chimirri, which occurred without Zelaya's knowledge or permission.

Ministry of Security

¶3. (C) There were few substantial changes, but those that were made, appear to have been done so to remove opposition or independence. The most noteworthy of these changes was the sending of Minister of Security Alvaro Romero as Ambassador to Costa Rica. For months we have been hearing Romero would retire and go to the United States to teach at the InterAmerican Defense College (which included a dramatic increase in salary), but the newspapers report that his mother is elderly, and he preferred to stay close to home. Regardless of the destination, this demotion is seen as punishment for Romero's role in the raiding of the state-owned phone company Hondutel and the home of its Acting

Director Marcello Chimirri on November 9, 2007. Although honest and professional, Romero received heavy criticism from many sectors for being ineffective in curbing spiraling criminal, gang, and narcotics activities. His replacement, current Vice Minister of Security Jorge Rodas Gamero, is an ex-army Colonel and is very similar to Romero in style and substance. He has also taken a polygraph test and is likely to continue on the same policy path, albeit less energetically.

Central Bank

14. (C) The second interesting removal is that of Gabriela Nunez, the head of the Central Bank of Honduras (BCH), who is being replaced by Edwin Araque, current director of the national port authority (ENP). Nunez, who harbors presidential ambitions and had openly discussed resigning to launch her campaign, is highly regarded by both USG and IFI representatives as both technically competent and independent. Nunez did not tender her resignation when asked to do so in November, which means she was "fired" by Zelaya. This is technically against BCH regulations, which state that the Central Bank head is to serve a fixed four-year term and not at the pleasure of the President as is the case with cabinet secretaries. However, in practice, the Honduran President has always enjoyed the authority to replace the head of the bank. It is generally believed that removal of Nunez was politically motivated; Nunez was highly independent, and it is well known that her allegiance lies with former Honduran President Carlos Flores and the current President of the Congress Roberto Micheletti, and not Zelaya. (Note: Zelaya insisted that anyone running for higher

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office, including former Minister of the Presidency Yani Rosenthal, had to step down from his cabinet. End note.) In December, she signed a report recommending that Honduras not conclude an agreement with Venezuela to purchase petroleum products on credit through PetroCaribe, because of the implications for Honduras's external debt position, which likely infuriated Zelaya, who is aggressively pushing a Petrocaribe deal. In fact, during her "farewell" press conference on January 8, Zelaya reportedly interrupted her by calling her on her private cell phone to try to assuage her. Apparently, this call did nothing more than raise her ire, which was reported by the dozens of press in the room.

15. (C) In contrast to Nunez, her replacement, Araque, is seen as apolitical, despite having served for 25 years at the BCH, including as Vice President. He is a staunch member of Zelaya's "Poder Ciudadano," and it is believed that he would be more willing to do what he is told by the President. Araque has done an excellent job at the National Port Authority, and even his detractors describe him as "a good manager who took on the unions, and who is good with money." He dramatically increased the amount of revenues the GOH receives from the port, and in return received numerous death threats, which indicates he is willing to stand up to criminal or corrupt parties.

Ministry of Labor and ENEE

16. (C) Other moves of note include the naming of former Minister of Labor Rixi Moncada as the head of the national electric company (ENEE). Moncada is a lawyer who has no business experience, but she is a firm leftist and is best known for initiating GOH talks with Venezuela over PetroCaribe. Moncada openly discussed her visit to Venezuela with the Ambassador. The ENEE unions have already come out against her, criticizing her lack of experience, and former ENEE director Juan Bendeck told EconCouns she was woefully unsuited for the job. Moncada's first public statements were to criticize the owners of the thermal power plants from which ENEE purchases the bulk of its electricity. Bendeck, who served an unfruitful two months at the head of ENEE

despite being widely regarded as the most technically competent of the five managers to run the company under the current administration, has also criticized the power plant owners, something he told us was his worst mistake. Moncada will be replaced at the Ministry of Labor by Mayra Mejia, heretofore Minister of Environment and Natural Resources (SERNA).

Ministry of Health

17. (U) Minister of Health Jenny Meza is being replaced by medical doctor Elsa Palou. Palou is well respected by the USG and IO representatives and has worked collaboratively with the international community in the past.

Other ministries/entities

18. (SBU) Five ministries/entities will lose their leadership, but replacements have not yet been named. These include the Ministry of Trade and Industry, SERNA, Hondutel, ENP, and the Ministry of Foreign Affairs. Press is reporting that new leaders of the first four will be named by January 11, while the new FM will not be named until February 1, when the next Congress is in session. Outgoing Trade and Industry Minister Jorge "Coque" Rosa has been serving as interim head of Hondutel since Chimirri's dismissal and appears likely to remain in that job. There are unconfirmed rumors that Chimirri is being considered to run the port authority. Embattled and beleaguered Finance Minister Rebecca Santos, a former World Bank staffer who has the unenviable job to trying to square Zelaya's populist ambitions with fiscal reality while seeking to negotiate a new IMF agreement, will apparently remain in place. Defense Minister and Zelaya confidante Aristides Mejia will apparently also remain at Defense.

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Comment

19. (C) The cabinet changes punish those Zelaya distrusts and brings in people he thinks he can control or those who are extremely loyal. Juan Bendeck and other highly regarded Liberal party members told us that Zelaya has been literally "begging" them to take over ministries for months but was unable to get any takers. Security Minister Romero was punished for his role in the raid on Hondutel and Chimirri, and when he announced in November he would never "resign," Zelaya had no choice but to fire him. Nunez was likely ousted for her independence and obvious allegiance to others, despite the fact that she had done an excellent job at the BCH. Although Nunez had been flirting with resigning to run for President, she did not want to leave under these terms. As part of the Micheletti faction of the Liberal party, she would not likely have competed with Micheletti for the Liberal nomination now that Micheletti has been constitutionally cleared to run, although she has indicated she might be his vice presidential running mate. In any case, she could have campaigned legally from the BCH, in contrast to other Honduran cabinet members who are required by the constitution to resign. With Zelaya's populist economic policies driving Honduras further into debt, and with the GOH losing hundreds of millions of dollars per year to over-generous subsidies, it is possible Zelaya will attempt to introduce creative short-term financing alternatives that will allow him to pass the bill onto his successor. Therefore, he may feel it advantageous to have a more pliant head of the BCH. In short, Zelaya is increasingly isolating himself and having a harder time finding anyone to trust. In a December meeting with the Ambassador, Zelaya indicated his son Hector would be the new go-between with the Embassy. In the past, Zelaya has, in turn, appointed the FM, the Minister of the Presidency, and a political operative to this role, none of which worked successfully. He is now left with his son as one of those few people he still trusts. End comment.

